- "Depreciation and Capital Recovery Issues, A Response to Professor Hausman", co-authored with Frederick Warren-Boulton and Susan Woodward, July 1996, submitted on behalf of MCI in FCC Docket No. 96-98.

- Testimony in FERC Docket ER95-836-000 on behalf of wholesale customers, who were objecting to certain aspects of Maine Public Service's transmission and ancillary service tariff (August 1995).

- A comment on the relationship between advertising and sales, January 1995, submitted on behalf of MCI in FCC Docket No. 92-77, concerning proposals for implementing billed party preference in the selection of long distance carriers.

- Affidavit, co-authored with Robert J. Reynolds, concerning an FERC abandonment proceeding, October 1991, submitted on behalf of Sun Refining and Marketing Company in FERC Docket No. CP91-2819-000.

- Affidavit concerning Expanded Interconnection with Local Telephone Company Facilities, September 1991, submitted on behalf of MCI in Federal Communications Commission Docket No. CC 91-41, ENF-87-14.

- "The Economic Effects of Cable Deregulation," co-authored with John Woodbury, Frederick Warren-Boulton and Daniel Sherman, May 1990, submitted on behalf of the National Cable Television Association in Federal Communications Commission MM Docket No. 90-4.

- "The Economics of Local Telephone Company Integration into the Retailing of Video Programming," December 1988, submitted on behalf of the National Cable Television Association in the Federal Communications Commission Docket No. CC 87-266.

- "The Choice of Productivity Offsets for Rate Cap Regulation," July 1988, submitted on behalf of MCI in Federal Communications Commission Docket No. CC 87-313.

- "An Analysis of the Utility of Price Cap Regulation as Applied to the Local Exchange Carriers," co-authored with Stephen Silberman, December 1987, submitted on behalf of MCI in Federal Communications Commission Docket No. CC 87-313.

- "The Economics of Line of Business Restrictions and Structural Separations," co-authored with Stephen Silberman, January 1986, submitted on behalf of MCI in Federal Communications Commission Docket No. CC 85-229.

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Application of Ameritech	)	
Michigan Pursuant to Section	)	
271 of the Telecommunications	)	CC Docket No. 97-137
Act of 1996 to Provide In-	)	
Region, InterLATA Services in	)	
Michigan	)	

Exhibit B:
Affidavit of Nate Davis
on Behalf of MCI Telecommunications Corporation

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Application of Ameritech	)	
Michigan Pursuant to Section	)	
271 of the Telecommunications	)	CC Docket No. 97-137
Act of 1996 to Provide In-	)	
Region, InterLATA Services in	)	
Michigan	)	

AFFIDAVIT OF NATE DAVIS
on Behalf of MCI Telecommunications Corporation

I, Nate Davis, hereby declare and affirm as follows:

1. I am employed by MCI as Senior Vice President for Local Markets and Finance. In my current position, I am responsible for all aspects of MCI's entry into the residential and business markets for local telecommunications services. I am also responsible for MCI's accounting, planning, financial operations and business analysis. I have been with MCI since 1982, and have held a number of positions within the company over the last 15 years, including Senior Vice President of Network Operations, Senior Vice President of Access Services, Senior Vice President of Corporate Finance, Vice President of Systems Engineering, and Vice President of Financial Operations. Upon MCI's merger with British Telecommunications plc, I will become Chief Financial Officer for MCI. I hold a bachelor of engineering degree from Stevens Institute of Technology, a master of science degree in computer science from the University of Pennsylvania, and an MBA from the Wharton School of Business.

2. My affidavit has three purposes. First, I will describe the importance of local service to the future of MCI and MCI's commitment to providing competitive local service in the state of Michigan, the Ameritech region, and nationwide. Second, I want to explain some of the many challenges MCI faces in order to enter, let alone become competitive, in the local marketplace. Finally, I will relate some of MCI's problems with Ameritech in attempting to provide local service in Michigan and across the Ameritech region. These problems, along with the myriad of legal, regulatory, and operational issues that remain unsettled in Michigan and elsewhere, lead me to conclude that if Ameritech is granted authority to offer in-region long-distance service prematurely, the fragile foundation upon which the promise of local competition in Michigan rests will collapse.

3. I have personal knowledge of the matters discussed in this affidavit or, in some cases, facts contained in this affidavit were made available to me by members of my staff.

The Importance of Local Service to MCI

4. The promise of the Telecommunications Act of 1996 is to bring the benefits of competition in local phone markets to consumers -- lower prices, higher service quality, and greater choices. The local marketplace is vital to the future of MCI and, as my affidavit makes clear, MCI is absolutely committed to breaking open the local phone market. We have a great deal of experience in opening monopoly markets. MCI first brought competition to long-distance service by successfully challenging the Bell System's monopoly over telecommunications, and we built a thriving $18.5 billion company by competing for every customer we have ever had. Since the breakup of the Bell System, long-distance rates have fallen by more than 70 percent. Today, any person living anywhere in America can choose among long-

distance companies, and realize the value and savings generated by long-distance competition.

5. Now, we are moving swiftly to open and enter local phone markets. Our incentive to get in to local service is one of overriding competitive necessity. Simply put, there is no way MCI can pass up the opportunity to offer more and better services to all of our nearly 20 million long-distance customers. Moreover, our business and residential customers are demanding fully integrated communications services; a single contact for sales and service; and, of course, the chance for real savings on their telephone bill.

6. In order to be competitive, therefore, MCI must be able to fulfill all of its customers' telecommunications needs, from local to long-distance, from cellular to paging, from toll-free service to Internet access, and everything in between. The ability to provide a competitive local service is vital to MCI's becoming a fully integrated telecommunications provider. Our experience has been that business and residential customers who purchase more than one telecommunications service from MCI are much less likely to switch providers than, for example, a customer who subscribes solely to MCI's basic long-distance service. In addition, consumers changed long-distance companies an estimated 50 million times last year alone. This fact underscores the competitiveness of the long-distance market, but it also poses a challenge to MCI, which not only wants to win new customers but also wants to keep those customers it has satisfied over the long term. Moreover, entering the market for local service is vital to retaining MCI's core long-distance customers. Many firms are moving aggressively to take advantage of the opportunities created by the Telecommunications Act of 1996. If we cannot provide fully integrated telecommunications services, we will very likely lose both business and residential long-distance customers to those competitors that can provide a complete package of services.

7. In addition, the local phone market presents MCI with a huge business opportunity. Until now, this market has been the province of incumbent monopoly service providers, primarily the Regional Bell Operating Companies ("BOCs").[1] How large is the market for local service? Almost double that for long-distance service. In 1996, the total revenue from long-distance service (net of access charges paid to incumbents) was approximately $50 billion, while total local service revenue was just under $96 billion. That figure included approximately $56 billion in local service revenue, $29 billion in access revenue, and $11 billion in intraLATA revenue. Because local markets are not competitive and interLATA toll markets are, local service is also twice as profitable as long-distance. The operating cash flow margin (generally called "EBITDA") in the competitive long-distance industry generally falls between 20% and 25%. The local service industry however, has historically produced EBITDA in the 40% to 45% range. The size and profitability of the local marketplace provide a compelling competitive opportunity for MCI. Indeed, many of our long distance business customers tell us they will switch to MCI local service as soon as it is available. Being competitive in this market will bring tremendous benefit not only to consumers but also to MCI and its shareholders.

8. MCI has an additional direct and immediate financial incentive to enter local markets. By providing local service ourselves, we will be able to avoid the exorbitant access charges imposed upon us by the current monopoly providers. Even if we do not provide alternative local service to our long-distance customers, effective competition in access services will force the BOCs to lower access charges for their access customers. The ability to reduce its

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[1] I will refer primarily to the BOCs in my affidavit. The points I make, however, generally apply with equal force to other incumbent monopoly local service providers. By using the term "BOC," I do not mean to exclude those companies.

access costs doubly benefits MCI, because the current access regime both greatly increases our costs of doing business and provides the incumbent monopoly BOCs with huge war chests with which to compete against us. MCI will also be able to improve reliability in its services by reducing its dependence on the local exchange carriers for access services.

9. In sum, competitive realities for MCI dictate that we compete in local markets. That is why, once again, MCI is leading the effort to create a more competitive telecommunications industry with a strategy and plan to provide local service.

MCI's Local Strategy

10. The importance of the local market to MCI is demonstrated by MCI's level of commitment to providing competitive local service across the country. MCI has put its money where its mouth is -- we have spent a total of approximately $2.5 billion for local markets thus far. Capital investments constitute a large portion of those expenditures: $1 billion through 1996, another $700 million in 1997 alone, with a cumulative total of $3.5 billion in capital expenditures planned by the end of 1998. MCI's merger with British Telecommunications plc will support our continuing aggressive plans.

11. All this money is financing MCI's broad-based entry into local markets nationwide. MCI currently provides switched local service using its own facilities (including switches and local city networks) in 23 cities. One of those cities is Detroit, Michigan, where MCI is providing service using an MCI-owned class 5 switch and local city network. MCI also owns a local city network in Ann Arbor. MCI will be in over 30 local markets by the end of 1997. By the end of 1998, MCI intends to offer local service in over 60 local markets.

12. MCI will bring the benefits of increased competition to all segments of the market. As it does with long-distance services, MCI will pursue high-volume, high-revenue business customers. And also as it does with long-distance services, MCI will offer a broad array of competitively priced local services to residential customers. MCI is fully committed to entering the residential local market on a large scale. Providing residential service promotes and protects the identity of the MCI brand, which is one of our most important assets. It will also allow us to tap a reservoir of residential customers who may generate a relatively small amount of long-distance revenue but who extensively use other telecommunications services, such as Internet access. Moreover, as I discussed above, we are in danger of losing customers from our core long-distance base if we do not offer a competitive local residential service. We also need to retain and expand our residential base in order to utilize our network efficiently and to keep our costs low.

13. MCI knows what its customers want, and has extensive experience in meeting those needs. Our early entry into the local market has allowed MCI to refine the types of services we intend to provide. In those localities where MCI competes, MCI will offer a full-service line of telecommunications products. We will provide a host of advanced, value-added services, such as ISDN, voice messaging, and enhanced centrex. MCI also will provide customized reporting and consolidated billing for local and long-distance services. Having a single point of contact for all telecommunications sales and services will facilitate the expansion of consumer choice.

14. In order to implement its aggressive local business plan, MCI must and will use all methods of providing local service: resale of incumbent services, purchasing unbundled

network elements from the incumbents, using MCI's own facilities, and entering into ventures with other companies to construct or utilize facilities. Different markets will call for different ways of providing service, but, in order to be competitive, MCI must be able to rely on every method being available to it.

15. In the case of resale and unbundled network elements, we are wholly dependent on the BOCs to provide us with what we need at prices consistent with the law. As competition progresses, however, MCI need not and will not be as tied to BOC service offerings and facilities. MCI intends to provide local telecommunications services to both business and residential customers predominantly through its own switches and other facilities. Where it is more efficient to do so, MCI will utilize unbundled local loops and collocations at BOC facilities to connect its customers to MCI's switches. This approach allows MCI to differentiate its products and services, as most advanced features and customized applications are provided through software resident in switches or in providers' own external databases. The more it builds, operates, and upgrades its own network, the less dependent MCI will be on outside factors and third parties. Providing local service through its own switches and external databases will maximize value for MCI's shareholders over time.

16. Access to unbundled network elements at cost-based prices is critical to MCI's local business plan for another reason. The Commission has concluded that the BOCs should not impose inflated access charges on access obtained using unbundled network elements, and indeed the Commission is counting on the availability of these elements at cost-based prices to achieve the goal of reducing access charges to cost. Consistent with the Commission's hopes and expectations, MCI intends to utilize unbundled network elements to provide customers with

more economical access services. MCI will avoid overpriced access when it uses its own facilities, but during the necessarily long process of building out its own network, the ability to lease network elements at cost-based rates in a variety of combinations will significantly facilitate MCI's market entry and MCI's ability to put competitive pressure on the BOCs.

Barriers to Entering the Local Market

17. MCI's efforts to enter local markets were underway well before enactment of the Telecommunications Act of 1996. We have made great strides thus far, but our experience has confirmed that competition in local markets will not happen overnight. In fact, more than a year after the Telecommunications Act was signed into law, the promise of the Act -- real competition and genuine choice in local phone markets -- remains largely unfulfilled. This is not because MCI is reluctant to compete. Nor is it because we have not been working hard to implement our plan for providing a real alternative to the current monopoly providers of local service. It is because local monopolies have demonstrated that they will go to great lengths to protect their markets from new entrants. Local monopolies are maintaining their stranglehold through artificial subsidies and anti-competitive activities that include unjustified, one-time charges that erect new barriers to entry, a continuing inability on their part to process commercial volumes of orders efficiently, and various regulatory and legal efforts designed to delay competition and thwart the operation of new entrants. Ironically, the BOCs are prematurely petitioning to be allowed to offer in-region long-distance service at the same time they are frustrating our efforts to enter local markets..

18. None of this comes as a surprise. In fact, none of it is new. The Bell System responded in similar ways when its monopoly was first challenged. Fortunately,

competition prevailed. Along the way, we learned some valuable lessons in opening monopoly markets, most importantly: rule changes alone will not tear down barriers to entry ; implementation "details" -- like the method and level of pricing -- are critical; and, opening monopoly markets takes time, discipline, and hard work on the part of new entrants, incumbents, and regulators.

19. The fact is, MCI cannot offer local service on its own. The steps required to provide a truly competitive local service are multifold. In order for meaningful local competition to occur, all players in the telecommunications industry, both public and private, must cooperate on a scale that is unprecedented in the history of the industry. MCI must negotiate franchise agreements, obtain construction permits, and seek authority to operate from local and state regulatory entities. MCI must obtain building entry rights in places where BOCs have been present for decades. MCI must negotiate to provide 911 services with local jurisdictions. MCI must develop and file tariffs for its local services, which generally must be approved by a state commission. State regulatory commissions must approve interconnection agreements, set cost-based rates for unbundled elements, and establish appropriate wholesale discounts for BOC services, among many other tasks. These efforts are ongoing across the country.

20. The cooperation of the BOCs is essential to this process. Earlier, I touched on the fact that MCI is completely dependent on the BOCs for interconnection and access to their services for resale as well as to their unbundled network elements. In order for complete interconnection and the ability to resell BOC services to become a reality, however, many steps are required. MCI must negotiate detailed and comprehensive interconnection agreements with BOCs. These "agreements" are nothing like a typical business contract where the parties have

relatively equal bargaining power and the ability to walk away from the table. Here, if we want to do business in a BOC's region, we have no choice but to negotiate with that BOC. To the extent that negotiations with the monopoly BOCs are unsuccessful, MCI and the BOCs must submit outstanding issues to the state commissions for arbitration. Due to the BOCs' intransigence and desire to protect their lucrative local monopolies, MCI has found it necessary to seek arbitration in every state where it has attempted to negotiate an interconnection agreement, including Michigan (where we still do not have an approved interconnection agreement with Ameritech). Moreover, the BOCs, including Ameritech, have rebuffed our attempts to expedite this process by refusing to negotiate region-wide interconnection agreements. MCI and the BOCs also must address numbering issues, including obtaining NXXs and implementing both interim and permanent number portability. MCI must obtain and construct collocation sites, which the BOCs must build out on a timely and efficient basis at reasonable cost. MCI and the BOCs must plan and implement methods to provide 911 service, as well as operator services and directory assistance. MCI and the BOCs must develop automated interfaces and business practices for ordering and delivery of resale service and unbundled network elements.

21. None of this has ever been done before, however, and it has already taken, and will continue to take, considerable time, money and effort to make it all happen. Our experience thus far shows that obtaining the cooperation we need from entrenched monopolists to take away their business is not easy. The BOCs have been willing to do only as little as they calculate that federal and state regulatory bodies will conclude is enough. As I will discuss in more detail below, the carrot of BOC entry into in-region long-distance provided in Section 271 of the Telecommunications Act of 1996 seems to have been a force motivating the limited BOC

cooperation we have seen thus far.

22. MCI must be able to reach all geographic locations within a state in order to capitalize on economies of scale. This means we will have to negotiate interconnection agreements with other incumbents in a region as well as with the BOCs. For example, I understand that GTE, not Ameritech, is the incumbent local exchange carrier in critical segments of the Michigan market, including portions adjacent to the Lansing, Grand Rapids, and Ann Arbor areas. The most efficient way for MCI to launch its service offerings in Michigan is on as complete a state-wide basis as possible. To do that, we need other incumbent carriers, not just Ameritech, to provide access and interconnection consistent with their obligations under the Act. Their failure to do so is a significant additional impediment to market entry.

23. MCI must also cooperate with other, non-incumbent companies in order to enter the local market successfully. MCI will need to work closely with switch and other equipment vendors in implementing its facilities-based strategy. MCI must negotiate interconnection agreements with other competitive carriers, and will need to negotiate for shared collocations and rights of way where necessary. Working with other companies in a competitive market is very familiar to us. Because those companies -- unlike the monopoly BOCs -- have strong business incentives to cooperate with MCI, I am confident that these efforts will remain on track.

24. Finally, MCI itself has a great deal of work to do before it can compete effectively in local markets. In addition to the many legal and regulatory hurdles I mentioned earlier, MCI must plan its network, obtain access to buildings and rights-of-way, construct facilities and collocations where necessary, purchase and install equipment from third-party

vendors, develop internal systems and business practices for various operations support systems functions, and then design and implement strategies for marketing its new local services. We have already spent billions of dollars to get these efforts off the ground, and they are well underway. Many of the steps I mentioned, however, require the cooperation of the BOCs. For example, MCI cannot develop its operations support systems interfaces without information and cooperation from the BOCs. Each step of the processes I just described, as well as many others I did not mention, is critical. We all know that "the devil is in the details." I will highlight just a few of those "details" here, all of which are significant and none of which are simple. All, however, provide ample opportunities for the BOCs to derail effective competition.

25. First of all, true cost-based prices for BOC unbundled network elements and resold services are vital. It is useless to MCI to be able to obtain network elements and services for resale if the prices violate statutory standards and prevent MCI from utilizing them economically. If the prices of these inputs are too high to permit MCI and other competitive local exchange carriers to charge their potential local customers competitive retail prices, then effective local competition will die on the vine. Moreover, to make the enormous financial commitments that local competition requires, MCI needs to know what the price of these inputs is. I understand the Telecommunications Act of 1996 to require the BOCs to provide unbundled network elements at rates based on cost, including a reasonable profit. I also understand that the Commission has interpreted this standard so as to enable companies like MCI to obtain these elements at prices that permit MCI to compete at the retail level. Unfortunately, however, virtually none of the state commissions charged with setting the actual rates has made final decisions about what the cost-based prices for these elements are. Although many state

commissions have adopted interim prices -- and often interim prices that are close to the Commission's proposed (but stayed) interim prices -- the BOCs continue to press for final prices that are both substantially higher than the interim prices and substantially exceed true cost-based prices. This uncertainty is compounded by the judicial stay of the Commission's pricing method. Uncertainty about prices makes MCI's investment even more risky than it otherwise would be.

26. It is essential to MCI's ability to compete that all of the charges associated with unbundled network elements are cost-based as required by law. That is true for recurring charges, such as per-minute charges for unbundled local transport and per-month charges for unbundled local switching. But it is equally true -- if not more so -- for so-called non-recurring charges ("NRCs"). NRCs are one-time charges imposed by the BOCs to establish service. To a new entrant like MCI, NRCs are simply part of the purchase price of a unbundled network element, and they must be viewed as such. NRCs include, to name just a few of the NRCs the BOCs seek to impose, charges such as service order processing charges, line installation charges, and the like. NRCs also include "network" charges, such as collocation charges and operations support systems development charges, imposed by the BOCs for modifying the local network to allow for competition. NRCs pose a particularly insidious barrier to entry and a constitute a major threat to budding local competition. These NRCs, which are frequently artificially inflated, unnecessary, or inappropriately applied, significantly add to a new entrant's business risk and distort that entrant's business decisions, thus slowing or thwarting competition. In some cases, these costs make effective entry impossible. The ability of incumbent monopolies to apply these NRCs is solely a function of their monopoly power. In a competitive marketplace, such charges would not exist, would not be inflated, or would not be applied in a manner inconsistent with the

principles of forward-looking economic costs. Just how serious a threat to local competition are NRCs? The NRCs sought by Ameritech in Michigan create a mammoth barrier to entry. The NRCs are so high that only in rare cases will MCI be able to retain a customer long enough to recoup its investments in NRCs. In addition, in some cases MCI does not even know when a given NRC will apply, and Ameritech has often not been able to tell us. Moreover, high NRCs on local loops and other unbundled network elements discourage new entrants from using those elements in combination with their own facilities -- a result directly contrary to the intent of Congress when it passed the Telecommunications Act of 1996. MCI wants to integrate its own facilities into existing networks. Excessive NRCs, which effectively impose a hidden surcharge on facilities-based competition, frustrate this objective.

27. Wholesale prices for resold services, and uncertainty regarding those prices, also have a major effect on MCI's entry plans. Across the country, the BOCs are asking state commissions to impose discounts that are substantially smaller than the 1996 Act requires. The BOCs have also sought to impose NRCs on resold services, even in instances where the BOC itself does not incur the same costs. At the rates that have been adopted (and with the NRCs that have been allowed) on an interim or final basis across the country, resale is simply not a profitable strategy for MCI over the long term. Resale is still an important and necessary component of MCI's plans. Resale provides a vehicle for MCI to provide local services on a ubiquitous basis while it builds out its own network and establishes collocations in widespread BOC end offices. Inadequate wholesale discounts and improper NRCs for resale service will eliminate any hope that resale service will facilitate the transition to facilities-based local competition.

28. Another key area is operations support systems ("OSS"). OSS are the

systems and business processes between incumbent and competitive local exchange carriers that allow for pre-order transactions, ordering, provisioning, maintenance and repair, and billing. In order for a new entrant to provide competitive local service, it must be able to process large volumes of orders in a quick, reliable and efficient way -- just like the long distance industry does today. OSS is critical to a mass market company such as MCI. We need to reach a large base of potential customers immediately, and it will be catastrophic if the OSS cannot handle a high volume of orders. Errors and delays will reflect poorly on MCI, not the established incumbent carrier. In fact, local service problems will place MCI in danger of losing long-distance customers as well. OSS is just as important to serving business markets. Sophisticated telecommunications users demand a high level of service. If MCI cannot match the performance and service intervals of the BOCs in providing local service, then MCI will not be able to compete for those customers. The parity of service required by the Telecommunications Act is impossible without fully developed OSS. Samuel King's affidavit describes the need for high-quality, well-tested OSS in more detail.

29. Dialing parity issues and nondiscriminatory access to telephone numbers are also crucial to MCI. This is particularly true when all the NXX codes within an area code become exhausted, a situation we face in several places in Michigan. In such situations, new entrants will be affected to a much greater extent than incumbents, because the incumbents already have NXX codes covering their entire potential territory, whereas new entrants can be completely blocked from extending service until a new area code is implemented. That process typically takes more than a year to complete. In addition, as the inventory of NXX codes approaches exhaustion in an area code, incumbents may allocate less desirable codes (such as

"666" for example) to their competitors.

30. These and innumerable other matters are in being addressed on an almost daily basis by the BOCs, competitive local exchange carriers, and regulators. The massive effort being put forth nationwide, and the great progress we have made thus far, indicates to me that substantial additional progress can be made in the coming months. Local markets could be on the verge of a breakthrough to true competition. That breakthrough will be delayed considerably -- and may not even occur at all -- if the incentive structure created by the Telecommunications Act of 1996 is not allowed to play out as I believe Congress intended. Experience shows that as long as the BOCs are chasing the carrot of entry into the in-region long-distance market, they are more likely to cooperate with companies seeking to enter their local markets. Once that incentive disappears, the BOCs' incentive to cooperate with us goes with it.

31. Premature entry by Ameritech into long-distance would harm competition greatly. Local competition is far from inevitable. MCI's ability to provide competitive local service is still in doubt. Equally important, implementing our facilities-based strategy necessarily takes time. For example, it can take a full year (and can cost up to $15 million) to plan and complete the installation of just one switch. It can take even longer to build a local city network because of the time it takes to obtain government approvals, secure rights of way, and complete construction. Once the BOCs get in-region long-distance authority, however, they can be in the long-distance business essentially overnight. This would deal a huge blow to competition. If BOC applications for in-region long-distance authority are granted prematurely, then monopoly providers such as Ameritech will be able to compete for each and every MCI customer. The BOCs will be able immediately to take advantage of all the benefits of being an integrated service

provider that I described above. But MCI will not yet be able to compete effectively for all of the BOCs' local customers, and whatever incentive the BOCs have to cooperate with us will evaporate. Giving the BOCs such a head start will put competitive carriers at a grave competitive disadvantage.

MCI's Experience With Ameritech

32. I have explained MCI's commitment to local service and have described many of the pieces that must fall into place in order for MCI to enter and compete in local markets. I will now briefly turn to MCI's experience with Ameritech in Michigan. The affidavits of Cari Sanborn and Samuel King describe our situation with Ameritech in great detail, but I want to highlight just a few of the many critical issues we face in Michigan and in the Ameritech region as a whole.

33. The state of Michigan and the Ameritech region are extremely important pieces of MCI's local entry strategy. MCI has made a substantial investment in its own facilities in Michigan, and plans to invest more. In addition to the class 5 switch and local city networks I mentioned earlier, MCI has already installed two physical collocations at Ameritech facilities in Detroit and Ann Arbor, and plans to install 17 additional collocations in Michigan by the end of 1997. MCI also has plans to install a second switch in Michigan in late 1998. MCI is also pursuing an aggressive resale effort. MCI has been conducting employee testing for residential resale service in Michigan, using manually placed orders, since February 1997. MCI has also done extensive live customer testing elsewhere in the Ameritech region in order to assess the viability of offering resale service on a wide scale. MCI is planning to offer local resale service using electronic ordering procedures in selected Michigan markets this summer. We hope to

capture 3,000 - 4,000 customers with this limited offering but, by the end of October, our target is 25,000 - 30,000 residential resale customers. MCI plans a full-scale resale offering to business customers in the late fall of 1997. MCI's plans are, of course, dependent on the competitive environment in Michigan and the capability of Ameritech's OSS to process the service orders and perform the other necessary functions. Significant problems with Ameritech's systems have hampered our efforts to test and implement resale thus far, as I describe in more detail below. There is no doubt, however, that we intend to compete seriously in Michigan.

34. MCI first dealt with Ameritech under the Telecommunications Act of 1996 approximately 15 months ago. Our experience has been disappointing thus far. Although we have made major inroads in Michigan where only limited cooperation by Ameritech has been required, greater market penetration has been stalled. Ameritech has frustrated us in Michigan despite our best efforts, which has led to a lack of meaningful progress toward local competition in Michigan. For example, MCI has pursued unbundled network element testing with Ameritech since early January 1997. Because there is no final interconnection agreement between MCI and Ameritech in Michigan, Ameritech has taken the position that we could not place test orders for unbundled network elements other than loops. Ameritech took the same position in the other states in its region. Only after interconnection agreements were approved in Illinois and Ohio were we finally able to place test orders for unbundled elements. This did not occur until early May 1997. In the interim, Ameritech's tariffed offerings are insufficient to meet our competitive needs. Ameritech does not even have tariffs in effect for access to most unbundled network elements, with the exception of local loops (which MCI has ordered on a trial basis). MCI is continuing to push Ameritech as hard as we can for testing and delivery of key unbundled

network elements, including unbundled local switching.

35. Another area of frustration is with Ameritech's OSS. As I stated earlier, OSS is essential to processing large volumes of orders, whether for resale or unbundled network elements. Thus far, Ameritech's OSS focus has been almost exclusively on resale. Even so, the OSS developed for resale is inadequate to support full competition. As Samuel King describes in his affidavit, Ameritech's automated OSS currently do not support resale of anything other than plain old telephone service. MCI cannot order services such as ISDN, private lines, centrex, or frame relay. Ameritech can only hold seven pre-order calls at any one time. The eighth caller must wait on hold with a customer on the line. Ameritech's system repeatedly rejects orders and, when it does accept our orders, frequently processes them incorrectly. Customers frequently have been double billed, and some have even lost dial tone altogether. Almost as troubling is the fact that Ameritech's implementation of its resale OSS required almost daily intervention by high-level MCI management in order to ensure that orders were fulfilled promptly and properly. Billing and maintenance OSS for local service are also untested on any significant scale. Ameritech is not ready to provide the parity access to OSS required by the Telecommunications Act.

36. I have been informed that an Ameritech employee testified at a recent hearing before the Michigan Public Utilities Commission that Ameritech's OSS could not handle unanticipated increases in transaction volumes. This Ameritech witness expressed the opinion that it was unreasonable for competitors to expect Ameritech's system to be able to handle such "spikes" in demand without warning. This reflects a completely unrealistic view of the nature of the telecommunications industry. A mass market company such as MCI could, through a strategic marketing campaign, generate thousands of orders in one week. It is extremely unlikely

that we would warn our largest competitor, Ameritech, that we were about to launch such a campaign. Ameritech has not proven that its OSS can handle competitive volumes of transactions. Within limits -- none of which Ameritech is even close to approaching -- Ameritech's systems must be able to handle peak volume, just as telephone networks are designed to handle peak volume during the busy hour. If those systems break down, then MCI will lose customers and revenue.

37. MCI certainly must be able to order services for resale in commercially sufficient quantities, and Ameritech has made some progress toward that goal. But automated OSS for resale alone is far from sufficient. Ameritech must provide automated, fully tested OSS for ordering of unbundled elements, both individually and in combinations. Right now, Ameritech is nowhere close to being able to provide automated OSS for unbundled network elements. For example, MCI's strategy of becoming a switch-based provider depends on timely access to unbundled loops. Currently, however, unbundled loop orders require use of a non-standard Access Service Request ("ASR") and manual processes to initiate service and provide interim number portability. The ASR is used in the access environment, not for competitive local service. Ameritech must move to the industry standard Local Service Request ("LSR") approved by the Ordering and Billing Forum of the Alliance for Telecommunications Industry Solutions. It is MCI's understanding that Ameritech is far from ready to implement automated processes for ordering other unbundled network elements such as transport, switching, and directory assistance and operator services on any meaningful scale. Ameritech also needs to design and implement systems to implement interim and permanent number portability. Ameritech has not yet provided unbundled local switching to MCI or any other carrier, and refuses even to acknowledge

"common transport" as a network element to which we are entitled to have access at cost-based rates.

38. The current situation regarding prices in Michigan also poses serious problems for MCI. First, Ameritech has imposed a significant barrier to MCI's entry into the local market in Michigan by setting astronomical non-recurring charges in connection with resold basic services. Dennis Ricca's affidavit discusses this issue more fully. Second, the non-recurring charges Ameritech seeks to impose for unbundled network elements are, if anything, even worse. To cite one particularly egregious example, Ameritech proposes a charge of more than $33,000 per carrier per switch for unbundled local switching billing development, a charge that guarantees Ameritech multiple recovery of its claimed costs. Ameritech's non-recurring charges for physical collocations and other network elements such as loops are also greatly inflated. The affidavit of Dr. August Ankum explains the flawed pricing structure Ameritech seeks to impose on its potential competitors. I want to emphasize here the fact that Ameritech's proposed non-recurring charges will eliminate the profitability of serving large segments of the market by means of unbundled elements. Finally, the ultimate prices for unbundled network elements and the wholesale discount have yet to be established. The lack of final prices creates a significant degree of uncertainty for a new entrant like MCI, because, as I mentioned earlier, we cannot calculate with any degree of certainty what it will cost to provide local service and whether it ultimately will be profitable.

Conclusion

39. I have explained in detail both the importance of the local market to the future of MCI and MCI's strong commitment to entering that market on a large scale. Michigan is a key state for us. Right now, local competition there is in its infancy. Much remains to be done and, in my view, the progress that has been made can still be undone because Ameritech has yet to establish a track record on all the areas of cooperation that are needed. It is my strong belief that allowing Ameritech to provide long-distance service in Michigan before the market there is truly competitive will halt the march to competition in its tracks.

This concludes my affidavit.

I declare under penalty of perjury that the foregoing is true and correct to the best of my information and belief.

Nate Davis

Nate Davis

Subscribed and sworn before me this 9th day of June, 1997.

Notary Public DOLORES VISMARA
Notary Public District of Columbia
My Commission Expires: 6/14/99

My commission expires:_____

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Application of Ameritech	)	
Michigan Pursuant to Section	)	
271 of the Telecommunications	)	CC Docket No. 97-137
Act of 1996 to Provide In-	)	
Region, InterLATA Services in	)	
Michigan	)	

Exhibit C:
Affidavit of Robert Hall
on Behalf of MCI Telecommunications Corporation